

Mr. Borden

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BEFORE
THE ROYAL COMMISSION
ON ENERGY

A SUBMISSION BY
MID-CONTINENT PIPELINES LIMITED
JULY, 1958

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MID-CONTINENT PIPELINES LIMITED

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Mid-Continent Pipelines Limited was incorporated under the Federal Pipelines Act in 1953 with power to construct pipelines for the transportation of petroleum anywhere in Canada.

International Oil Pipelines Corporation was incorporated in Delaware in 1957 by a group of individuals closely associated with Mid-Continent Pipelines Limited. International and those associated with it for the past twelve months have made feasibility studies, both economic and engineering for a large diameter crude oil pipeline to carry crude oil as a common carrier from the vicinity of Edmonton, Alberta to the vicinity of Joliet, Illinois to supply a part of the anticipated future increase in demand for crude in the Great Lakes area of the United States. On May 5, 1958 Mid-Continent filed an application with The Board of Transport Commissioners of Canada for leave to construct the pipe line. Hearings were originally scheduled for June 17, 1958 but have now been postponed to a date to be determined in August, 1958. Upon gaining the necessary approvals of the appropriate governmental agencies in Canada, by agreement entered into between Mid-Continent and International, International will become a wholly owned subsidiary of Mid-Continent.

GENERAL DESCRIPTION OF PROPOSED LINE

Engineering studies by the two companies show that a large diameter crude oil pipeline from Edmonton to the Chicago area can lay down crude at Chicago at a price completely competitive with present crudes of comparable quality from other continental sources while operating at only a moderate part of ultimate capacity. As the full capacity of the line is reached pipe line tariffs can be substantially reduced.

The proposed pipeline is expected to cost \$198,000,000, and will have an initial capacity of 150,000 barrels per day, which is expected to increase by the fifth year of operation to 300,000 barrels per day. Total first year deliveries at 100% load factor would amount to close to 55 million barrels, and total fifth-year deliveries close to 110 million barrels.

The pipeline will have a diameter of 30 inches, will be approximately 1,500 miles long (600 miles in Canada and 900 miles in the United States), and when augmented to carry 300,000 barrels per day, will have 83,000 horsepower combined pumping capacity in eight pumping stations, and 2,000,000 barrels storage tank capacity in each of two terminals located at the ends of the line. Provisions have been made for heavy-duty steel pipe fully protected with coating, wrapping and cathodic protection. The estimates also provide for a micro-wave radio communications system, automotive equipment, aircraft tools and working equipment, and office equipment.

From a point just east of Edmonton, the proposed pipeline will extend in a southeasterly direction for approximately

602 miles through mostly open prairie in Alberta and Saskatchewan to a point east of Northgate, Saskatchewan on the Canada-United States border. The American section of the pipeline will continue approximately 898 miles through prairies in North Dakota farmlands inspersed with lakes in Minnesota, rolling hills interspersed with farmlands and forests in Wisconsin, flat farmlands in Northern Illinois, and will terminate in Will County, Illinois about 20 miles southwest of Chicago.

This route passes close to Camrose, Alberta, Regina, and Moosejaw, Saskatchewan, Minot and Fargo, North Dakota, Minneapolis and St. Paul, Minnesota, LaCrosse, Wisconsin, and Rockford and Joliet, Illinois. It passes through or close to oil fields in Alberta and Saskatchewan and about 60 miles east of Williston Basin in North Dakota.

FUTURE DEMAND FOR CRUDE OIL IN THE U.S.

Studies made on behalf of the two companies conclude that over the ten years from 1957 to 1967 the demand for petroleum products in the United States will increase at an annual average rate ranging from a minimum of 4% to a possible 5% rate resulting in a total increase over the period of from 48% to 62%. This compares with the average annual increase in domestic demand of 4.9% from 1947 to 1957. Total domestic demand for petroleum products in 1957 was 8,797,000 barrels per day. The projected increases for the next ten years are in the range from 4,220,000 to 5,440,000 barrels per day by 1967. In 1957 domestic production of crude oil was 7,175,000 barrels per day which was augmented by natural gas liquids of 865,000 barrels per day and imports of crude and products of 1,545,000

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barrels per day to satisfy the domestic demand of 8,797,000 barrels per day plus exports of 562,000 barrels per day and stock increase of 167,000 barrels per day.

For the first time in fifteen years the proven reserves in the U.S. at the end of 1957 showed a decrease from the previous year. Average annual findings of new crude in the U.S. decreased to 2,887 million barrels for the five year period ended Dec. 31, 1957 from 3,341 million barrels for the previous five year period ended Dec. 31, 1952. In order to support the projected increase in demand over the next ten years from domestic sources alone the average annual findings of new crude would have to be in the range of from 3,850 million barrels in the earlier years to 6,820 million barrels in the later years.

The cost of findings, developing and lifting crude in the U.S. has steadily increased over the years as drilling results have declined.

These studies lead to the conclusion that imports or crude or products into the U.S. will of necessity have to increase from the 1,545,000 barrels per day figure for 1957 to a level nearer 3,300,000 barrels per day by 1967. The magnitude of such projected imports would equal the total demand for petroleum products in the U.S. in 1939 and would compare with the total combined production of Venezuela and Canada in 1957 of 3,279,000 barrels per day.

The deficits of domestic production to demand will be made up by imports from various outside sources which can logically satisfy the demand in the various consuming areas

in the U.S. on broadly the most economical basis. Thus as long as Canadian crude can compete price-wise with U.S. crude in certain areas there will be an expanding potential market in those areas of the U.S. which are geographically closest to Canadian production.

MARKET IN THE GREAT LAKES AREA

Consumption of petroleum products in the five state area adjacent to the Great Lakes extending from Wisconsin to Ohio increased from 928,000 barrels per day in 1947 to 1,582,000 barrels per day in 1957, an annual average increase of 5.3% per year which compares with an annual average for the country as a whole of 4.9% for the same period. The total demand for petroleum products in this area in 1957 was 18% of the total demand for the country. Projected demand for this area for the next ten years indicates an annual increase of 4.25% or a total for the period of 51.6%. This increase to 1967 would be about 820,000 barrels per day over the 1957 demand. With the demand increase for the country as a whole putting pressures on domestic production, imports on a competitive price basis must make up a substantial portion of the demand increase in the Great Lakes area.

PRESENT SUPPLY TO THE GREAT LAKES AREA

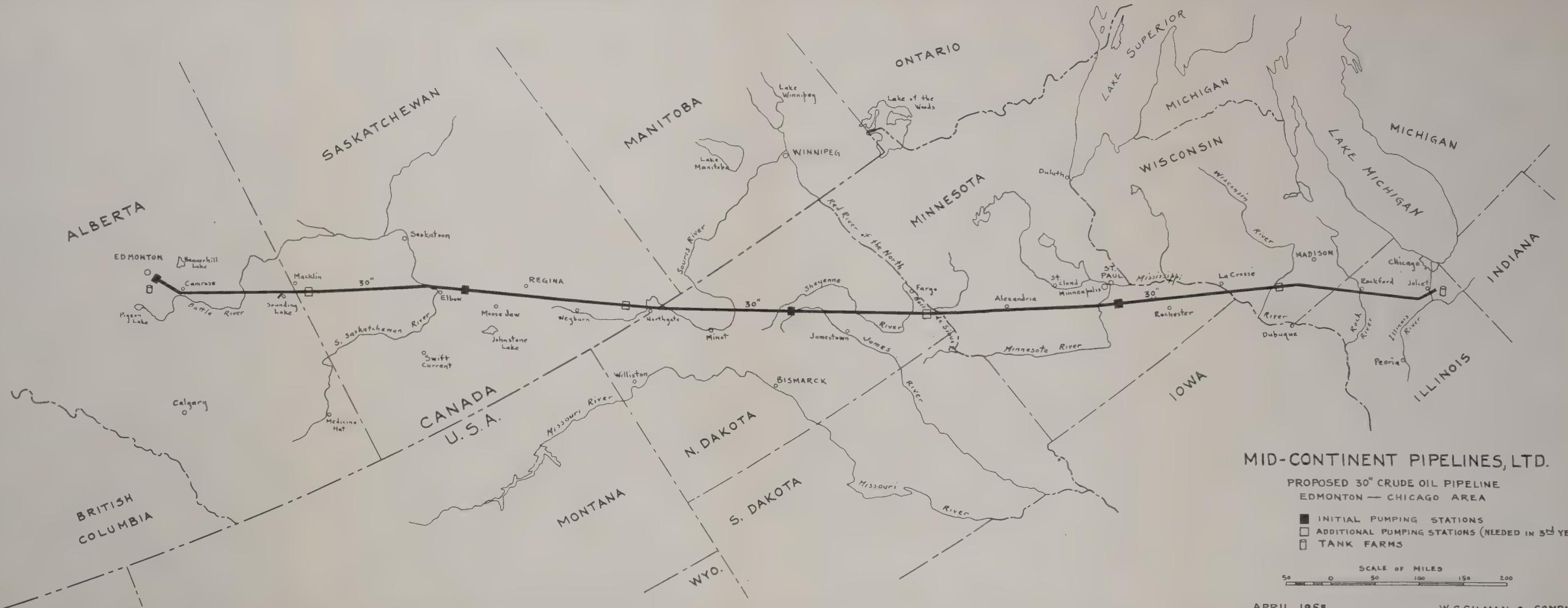
Established refineries in this area at Jan. 1, 1958 had a daily crude capacity of 1,060,000 barrels. Crude oil charged to these refineries arrived by pipe line from the Gulf

Coast, Mid-Continent, Rocky Mountain, Canadian and local producing fields. In 1956 Texas accounted for 45% of the supply with Oklahoma at 16.5%, Illinois at 11.1%, Utah and Wyoming at 9.4% and Kansas at 9.1%.

The remaining demand in the area not met by local refineries was made up largely from deliveries by product pipe lines originating in the Mid-Continent, Gulf Coast, Kansas City, and St. Louis areas.

PRESENT AND PROJECTED CRUDE OIL DEMAND
AND SUPPLY IN CANADA

Extensive briefs on this subject have already been submitted to the Royal Commission from many of the most competent sources of information in this country. Experts have been employed by Mid-Continent and International to review these submissions as well as to develop conclusions independently. All of these studies lead to the one conclusion that the reserve potential in Canada will not only take care of Canada's future demands, but is of such magnitude as to allow a future exportable surplus well in excess of the present pipeline capacity of pipelines currently exporting crude oil from Canada as well as the projected full capacity of the proposed Mid-Continent line of 300,000 barrels per day. In fact it is our opinion that the intensive development of large export markets for Canadian crude is only next in importance to the further development of the Canadian domestic market. It is Mid-Continent's prime purpose to develop an export market in the Great Lakes area of the U.S. in cooperation with the



refiners and marketers in that area and with the Canadian crude oil producers.

The present economic recession in Canada and the United States has resulted in a down turn in the long upward demand trend for petroleum products. Our forecasts are that the upward trend will commence again in the near future. However, the slackening in demand together with a present over abundance of crude available from both domestic and foreign sources created pressures in the U.S. to restrain the rapidly mounting imports of foreign oil and give a reasonable level of protection to the domestic crude producer. This has resulted in a series of voluntary import restrictions in the U.S. the mechanics of which are administered by Captain Matthew V. Carson, Jr. of the United States Department of the Interior.

Our studies lead us to the conclusion that this is a temporary situation which will be reversed or modified long before the end of the ten year period on which we have based our projections. It is possible that the change could come with startling rapidity scarcely giving time to develop the means of transporting larger imports into the U.S. by pipeline from Canada.

CONCLUSIONS

The increased demand for petroleum products in the U.S. over the next ten years will not be supportable by U.S. domestic production alone. Present evidence indicates that imports of crude oil and products in 1967 will of necessity be of the magnitude of 3,300,000 barrels per day as compared

to 1,545,000 barrels per day in 1957. The demand for petroleum products in the Great Lakes area will be of the general magnitude of 2,400,000 barrels per day in 1967, an increase of 820,000 barrels per day over 1957.

Imports of crude oil and products from foreign sources will enter the various consuming markets in the U.S. from those sources which can best compete not only price-wise but from areas which can assure a long future of safe and uninterrupted supply.

Economics only as applicable to a large diameter crude oil pipe line from Edmonton to the vicinity of Chicago as planned by Mid-Continent are such that low cost transportation could be provided for Canadian crude to be delivered at Chicago at a laid-down price completely competitive with crudes from other continental sources.

Beyond 1967 it is entirely possible that the pipe line proposed by Mid-Continent would have to be duplicated to supply a still more rapidly expanding demand for imported crude.

